

# CITY OF DEKALB, ILLINOIS

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## MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015



November 6, 2015

The Honorable City Mayor  
Members of City Council  
City of DeKalb, Illinois

In planning and performing our audit of the financial statements of the City of DeKalb (City), Illinois, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit fieldwork progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Finance Committee, City Council, management, and others within the City of DeKalb, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire City staff.

*Lauterbach & Amen LLP*  
LAUTERBACH & AMEN, LLP

## **PRIOR RECOMMENDATIONS**

### **1. IMRF NPO PAY-OFF**

#### Comment

Previously and during our current year-end audit procedures, we noted that the City has not paid off the IMRF Net Pension Obligation for a number of years as the City previously elected to use the phase-in rate. The election of the phase-in rate delays IMRF's recovery of the unfunded pension costs, and based on IMRF's interest rate assumption at 7.5%, the election of the phase-in rate over the ARC rate is more costly to the participating employers. This election requires participating employers to not only fund over time the difference between the phase-in contribution amounts and ARC contribution amounts, but charges a 7.5% interest rate on the difference as well.

#### Recommendation

We recommended the City contact IMRF directly to obtain the NPO balance for pay off. If additional payments are not made for employers electing the phase-in rate, the NPO will be recorded on an annual basis within the financial statements. In addition, we recommended that participating employers that have the financial ability to fund at the higher ARC to do so as this election will reduce total IMRF pension costs over the long term.

#### Status

This comment has not been implemented and will be repeated in the future.

#### Management Response

Staff agrees with this comment and brought this up during the FY16 budget process along with several other long-term liabilities looking to be paid off. At that time the City decided to pay down several large comp time balances and vacation balances to decrease those liabilities first. Staff will monitor the FY16 budget of \$350,000 that is for large payouts for employees leaving or retiring, and determine toward the end of FY16 what amount will remain to put towards a partial pay down of the IMRF Net Pension Obligation. Anything remaining to still be paid off will be budgeted for in FY17.

## PRIOR RECOMMENDATIONS – Continued

### 2. FUNDS WITH DEFICIT FUND BALANCE/NET POSITION

#### Comment

Previously, we noted funds with deficit fund balance/net position. See the following funds and the June 30, 2015 fund balance/net position compared to the June 30, 2014 fund balance/net position:

| Fund                                      | June 30, |           |
|---|----------|-----------|
|   | 2015     | 2014      |
| Heartland Fields Special Service Area #14 | \$ 990   | (310)     |
| Economic Development                      | -        | (25,681)  |
| Fleet Replacement                         | 294,308  | (179,943) |

#### Recommendation

We recommended the City investigate the causes of the various deficits and adopt appropriate future funding measures.

#### Status

This comment has been implemented and will not be repeated in the future.

## PRIOR RECOMMENDATIONS – Continued

### 3. FUNDS OVER BUDGET

#### Comment

Previously, we noted that the following funds had an excess of actual expenditures/expenses, exclusive of depreciation, over budget for the fiscal year:

| Fund                              | June 30,   |      |
|-----------------------------------|------------|------|
|                                   | 2014       | 2015 |
| General                           | \$ 347,773 | -    |
| Public Safety Building            | 948,611    | -    |
| Foreign Fire Insurance            | 41,029     | -    |
| Knolls Special Service Area #4    | 913        | -    |
| Greek Row Special Service Area #6 | 2,685      | -    |
| Economic Development              | 82         | -    |
| General Debt Service              | 1,281      | -    |
| Equipment                         | 96,610     | -    |
| Fleet Replacement                 | 88,822     | -    |
| Refuse                            | 40,476     | -    |
| Police Pension                    | 13,895     | -    |
| Firefighters' Pension             | 87,072     | -    |

#### Recommendation

We recommended the City investigate the causes of the funds over budget and adopt appropriate future funding measures.

#### Status

This comment has been implemented and will not be repeated in the future.

#### Management Response

Staff implemented a monthly review process with all departments to ensure we stay within budgeted parameters. Also, any items approved throughout the year for additional payouts or change orders included a budget amendment or were incorporated in to the year-end budget amendment approved by the City Council on November 9, 2015.

## **PRIOR RECOMMENDATIONS – Continued**

### **4. FUND CONSOLIDATION**

#### Comment

Previously and during our current year end, we noted the City maintains a large number of funds, specifically Capital Projects Funds as well as Internal Service Funds.

#### Recommendation

When the Governmental Accounting Standards Board issued GASB Statement No. 34 for the new reporting model, the Statement was issued under the theory of maintaining the minimum number of funds, which would enable governments to begin analyzing financial statements functionally (general government, public safety, public works, etc.) instead of by fund. The City currently maintains 17 governmental funds (general, special revenue, debt service, capital projects), and 6 proprietary funds (enterprise and internal service). By analyzing cash flows and subsidies currently provided by other operating funds, the City should begin the process to consolidate funds. Some possible fund consolidations include, but are not limited to, consolidating the Equipment Fund and Fleet Replacement Fund into one fund, the Equipment Replacement Fund. Likewise, the Workers' Compensation, Health Insurance, and Liability/Property Insurance Funds could be consolidated into the General Fund. As the City is no longer self-insured, the need for separate funds and related posting of charges for services is no longer required for accounting and reporting purposes. Closing these funds should lead to reduced time required to properly account for insurance related activities.

#### Status

The City has consolidated two funds in FY2015 and will continue to consolidate more funds during FY2016 in order to be in line with the guidelines of GASB Statement No. 34, therefore this comment will not be repeated in the future.

#### Management Response

Staff agrees with this comment and has begun merging the Fleet and Equipment Funds in to one Capital Equipment Replacement Fund (CERF), merging the Refuse Fund with the General Fund and consolidating the Internal Service Funds by the end of FY16.

## **PRIOR RECOMMENDATIONS – Continued**

### **5. GRANT ADMINISTRATION**

#### Comment

Previously and during our current year-end audit procedures, we noted that the City did not have adequate procedures in place for tracking and monitoring grant activities. Any department within the City may apply for, and be awarded, grant funding from a variety of State and Federal sources. Each grant has unique reporting and compliance requirements. It is the City's responsibility to track and properly account for all grant monies received and to monitor the City's compliance with grant requirements. In practice, often but not always, this responsibility is assumed by the department receiving the grant.

When responsibility for tracking and monitoring grant activity is not clearly delineated, grant compliance cannot be assured. In addition, when federal grants received by the City exceed a threshold set by OMB Circular A-133, the City is subject to Single Audit requirements. Many Single Audit requirements apply to the City as a whole rather than to any individual department. The City had not established a central tracking mechanism to monitor all grant activity so that the City is aware of when the Single Audit threshold has been exceeded.

#### Recommendation

In order for the City to assure compliance with individual grant requirements, we recommended the City develop specific policies and procedures for tracking and monitoring grant activities and to clearly delineate responsibility for monitoring the City's compliance with applicable requirements. In addition, to assure compliance with the Single Audit Act, we recommended the City establish a central tracking mechanism to monitor total grant activity and develop additional policies and procedures to assure the City's compliance, as an entity as a whole, with the Single Audit Act.

#### Status

The City has made improvements over the last year to be in compliance with individual grant agreements and the Single Audit Act. This comment has not been fully implemented and may be repeated in the future in the event all new policies have not been fully implemented by fiscal year ending June 30, 2016.

#### Management Response

Staff agrees with this comment and has made significant improvements based on new financial policies and internal controls that were put into place beginning in June 2015. Staff does not expect this comment to be repeated next fiscal year.

## PRIOR RECOMMENDATIONS – Continued

6. **GASB STATEMENT NO. 67 FINANCIAL REPORTING FOR PENSION PLANS AND GASB STATEMENT NO. 68 ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS**

Comment

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans*, which applies to individual pension plans issuing their own audited financial statements, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which applies to the state and local government employers that sponsor pension plans. The Statements apply to the reporting of the Illinois Municipal Retirement Fund (IMRF), Police Pension Fund and Firefighters' Pension Fund for the City. The Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the pension plans. The Statements specifically identify the methods and assumptions that are to be used in calculating and disclosing these pension-related accounts in the financial statements and also provide for additional note disclosures and required supplementary information. The Statements are intended to improve information provided by state and local government employers regarding financial support to their pension plans, and ultimately requires that the total net pension liabilities of the pension plans be recorded on the face of the financial statements of the sponsoring government. GASB Statement No. 67 is applicable to the separately issued financial statements of the Illinois Municipal Retirement Fund (IMRF), Police Pension Fund and Firefighters' Pension Fund for the year ended June 30, 2014. GASB Statement No. 68 is applicable to the City's financial statements for the year ended June 30, 2015.

Recommendation

We recommended that the City reach out to the private pension actuary engaged to provide the pension fund actuarial calculations (IMRF will automatically be providing the necessary information to all member agencies) in order to confirm the timeline for implementation and to review requested materials that will be required in order to implement the provisions and requirements of the new Statements. Lauterbach & Amen, LLP will also work directly with the City to assist in the implementation process, including assistance in determining the implementation timeline with the City and private actuary, providing all framework for the financial statements in order to complete the implementation, and assist in answering any questions or concerns the City or pension fund(s) might have related to the implementation process or requirements.

Status

This comment has been implemented and will not be repeated in the future.